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CHINA ECON
20 Dec 85**Eastern Europe:
Expanding Trade With China (U)**

Eastern Europe's economic links to China are on the upswing after languishing for decades since the Sino-Soviet split. Trade with China has increased this year, and several agreements signed by trade delegations have paved the way for future growth in commercial contacts. Chinese Vice Premier Li Peng in May led a delegation—the highest ranking group to visit Eastern Europe in more than 20 years—to East Germany, Poland, and Hungary that underscored each side's interest in expanded ties. Nonetheless, Beijing's continued interest in acquiring advanced Western technology and growing Soviet pressure for closer CEMA integration are likely to prevent such trade from acquiring major significance for either China or Eastern Europe. (C NF)

Renewal of Trade Ties

Soviet and East European advisers helped China build many industrial plants in the 1950s but left abruptly when Moscow and Beijing broke relations in the early 1960s. Although Beijing continued some cooperation with Eastern Europe, such as a Sino-Polish joint shipping company, most ties were suspended. The first signs of a thaw in relations did not appear until the early 1970s when Romania's desire to demonstrate its independence from Moscow led Bucharest to establish closer links to the PRC. Romania soon became China's single-largest trading partner in Eastern Europe, but economic relations with the other countries remained minimal. (C NF)

When Beijing—after ending its self-imposed detachment from international trade—entered world markets in the late 1970s, Eastern Europe did not initially benefit. In fact, in the early 1980s trade with China accounted for only about 1 percent of all East European trade. Moreover, while Sino-East European trade turnover declined about one-third from 1980 to 1984, China's trade with the industrial West was rising. As a result, Eastern Europe's share of China's trade dropped from 6 percent in 1980 to 3 percent in 1984. (C)

In the past two years, however, both sides have sought to revive commercial ties. In 1984, a delegation from the Chinese State Economic Commission followed by Chen Muhua, then the Minister of Foreign Economic Relations and Trade, visited several East European countries. Several exchange delegations explored issues of mutual cooperation and ways to improve economic efficiency.

when Chinese trade negotiators in 1984-85 proposed modernizing 90 industrial plants, the East Germans expressed interest in 47 projects and the Hungarians in eight. Chinese Vice Premier Li Peng's May visit to Eastern Europe resulted in five-year trade pacts with Warsaw and Budapest. Since then, the other East European states except Bulgaria have concluded bilateral five-year trade pacts with the PRC as well as other formal economic agreements. Li Peng is scheduled to visit Bulgaria in mid-December to promote trade and sign a five-year trade pact, according to press reports. (S NF NC OC)

Of all the East European countries, Poland is expanding its trade with China the fastest. According to the Polish press, two-way trade will nearly triple this year, led by large sales of Polish mining equipment and vehicles. Polish exports to China in the first half of 1985 were 72 percent greater than those for the same period of last year, according to Polish trade statistics. On 23 November, the senior economic planning officials for China and Poland signed an agreement calling for closer contacts between the state planning commissions of the two countries. At the signing, both officials said that bilateral trade between the two countries over the next five years would actually be about 40 percent greater than the amount planned in their five-year trade protocol signed last May. Hungary's trade with the PRC also increased in the first half of 1985, with exports rising 90 percent and imports 74 percent over the same

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Table 1
China-East European Five-Year Trade Pacts ^a

Country	Date	China Delivers	China Receives
Poland	May	Rice, maize, soybeans, shoes, cotton, clothes, textiles, porcelain, minerals, tea	Power generators, trucks, mining equipment, copper
Hungary	June	Rice, fruits, shoes, tea, cotton, clothes, vegetables, cooperation in agriculture	Steel, aluminum, trucks, medical instruments
GDR	July	Rice, oil, corn, textiles	Railroad cars, trucks, combines, agricultural harvesters
Romania	October	Coal, coke, crude oil, chemicals, non-ferrous metals, clothing	Railroad cars, tractors, oil drilling and mining equipment
Yugoslavia	October	Textiles, rice, soybeans, oil	Sheet metal, trucks, buses, fertilizer
Albania	December	Cotton, rice, tires, chemicals	Chromium, copper
Czechoslovakia	December	Cereals, meats, tea, chemicals, minerals, clothing	Machinery, iron, steel, railroad cars, technical assistance in energy production
Bulgaria	^b		

^a China has signed bilateral trade protocols this year with virtually every country in Eastern Europe. Bulgaria, the sole exception, is still negotiating and may conclude an agreement with Beijing in late December. Coming as the countries' five-year plans are being completed, the trade agreements are intended to assist central planners in coordinating their long-term foreign trade. Each agreement sets out a general framework for negotiating annual trade protocols plus broad targets for the volume of trade over the 1986-90 planning period. Moreover, the pacts provide the Chinese and East Europeans with a rationale for continued dialogue and improvements in overall political and economic relations.

^b Negotiations continue.

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period last year. Czechoslovakia and Bulgaria planned 30-percent increases in their trade with the Chinese this year. Although Romania continues to be China's major trading partner, Beijing is resisting Romania's pitch for even greater trade, in part because of improved ties to the rest of Eastern Europe, according to the US Embassy in Bucharest. (S NF)

Chinese trade with Yugoslavia and Albania also is increasing. According to the Yugoslav press, total trade between China and Yugoslavia for the first 10 months of 1985 was double that for the same period last year. The two countries signed a five-year trade protocol in October that calls for Sino-Yugoslav trade in the 1986-90 period to increase fourfold over the

level for the previous five years. Politburo member Hu Qili visited Yugoslavia in November mainly to encourage greater economic cooperation, according to the US Embassy in Belgrade. On 3 December, China and Albania signed a trade protocol for 1986 and a trade pact for 1986-90, their first long-term trade accord since they split in 1978. (C NF)

Motives for Expanded Trade

Both Eastern Europe and China can profit from closer economic cooperation. Trade may expand without using limited hard currency reserves because each produces goods the other can use and is willing to

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Table 2
Chinese Trade With Eastern Europe, 1983-84 ^a

Million US \$

	Exports		Imports		Balance	
	1983	1984	1983	1984	1983	1984
Total	668.1	587.4	840.2	1,042.6	-172.2	-455.2
Bulgaria	23.9	27.9	14.7	20.2	+9.1	+7.7
Czechoslovakia	90.1	103.8	112.7	124.6	-22.6	-20.8
East Germany	59.0	85.9	186.8	131.2	-127.8	-45.3
Hungary	25.9	27.8	45.3	58.9	-19.4	-31.1
Poland	163.5	100.6	99.8	160.0	+63.7	-59.5
Romania	289.7	222.8	309.1	448.9	-19.4	-226.1
Yugoslavia	16.0	18.6	71.8	98.8	-55.9	-80.2

^a Although Eastern Europe's trade with China is conducted primarily in barter, prices are attached to traded goods and any deficits are registered in clearing accounts. Through the 1980s, the Chinese have run sizable deficits with Eastern Europe and are pressing them to close the deficits by importing more Chinese goods.

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barter. Also, each side gains an outlet for goods that are not competitive in international markets because of low-quality, low-demand, or protectionist measures. East European exports of medium-technology manufactured goods—vehicles, machine tools, agriculture and mining equipment, and electric power generating equipment—are useful in China's modernization effort. Chinese deliveries of low-technology, labor-intensive products—shoes, textiles, agricultural products, clothing—can help ease chronic shortages of food and consumer goods in Eastern Europe. (c)

Political motives also have figured in the recent moves to expand economic relations. The upswing in trade discussions has coincided with a revival of other contacts. The Chinese probably see trade as a lever to increase their influence in Eastern Europe and partially offset current Soviet efforts at closer CEMA integration. For their part, the East Europeans apparently have concluded that closer economic links are now acceptable given the warming of Sino-Soviet relations, particularly the signing of a Sino-Soviet five-year trade accord earlier this year. Moreover, the

East European regimes have their own interest in cultivating Beijing. East Germany, for example, sees this as enhancing its international prestige while the reform-minded Hungarians want to build relations with a similarly inclined socialist state. Outside the Bloc, Albania and Yugoslavia probably want to improve their relations with another nonaligned Communist country. Albania's recent agreement to a five-year trade pact with China may indicate that the successors to the late party boss Enver Hoxha want to modify his xenophobic and autarkic external policies. (C NF)

Outlook

The recent bilateral trade and cooperation agreements set the stage for growth in trade between the two regions through the rest of the decade. Nonetheless, several factors will prevent the trade flow from acquiring major significance:

- Eastern Europe lacks sufficient production capacity to meet a large share of China's total demand for manufactured goods.

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- China's main foreign needs are products embodying higher levels of technology available only in the industrial West.
- Eastern Europe's need to satisfy increasing Soviet demands for more and higher quality exports will limit the amount of goods available to support trade with China.
- Each side's need to maximize hard currency earnings means the Sino-East European barter connection will receive only secondary attention.
- The inflexibility of a barter system will restrict trade to the extent that each has only a limited need for the products of the other. (S NF)

We believe that political developments will continue to influence the growth of East European-Chinese trade. The East Europeans will watch closely the evolution of Sino-Soviet relations in deciding how to approach their commercial dealings with Beijing. While the Chinese will assign a small role to Eastern Europe in their trade as long as they continue to expand relations with the West, this could change if political or economic considerations forced Beijing to curtail trade with the West. (C NF)

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